

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF COLUMBIA GAS OF)	
KENTUCKY, INC. TO IMPLEMENT A SMALL)	
VOLUME GAS TRANSPORTATION SERVICE,)	CASE NO.
TO CONTINUE ITS GAS COST INCENTIVE)	1999-00165
MECHANISMS, AND TO CONTINUE ITS)	
CUSTOMER ASSISTANCE PROGRAM)	

ORDER

On April 20, 2004, Columbia Gas of Kentucky, Inc. ("Columbia") filed a letter requesting that the Commission postpone its planned evaluation of Columbia's pilot Customer Choice Program ("Choice Program"). Columbia made the request to postpone the audit process to allow it time to decide whether to let the term of the pilot Choice Program expire or to file a request to continue it with modifications. Columbia stated that it was planning to meet with interested parties prior to making such a decision. The Commission has reopened this docket for the purpose of soliciting comment from all parties to this proceeding prior to acting on Columbia's request.

DISCUSSION

In its September 25, 2003 Order in this case, which approved the continuation of the Choice Program through March 31, 2005, the Commission stated that it would initiate the process to retain an external consultant to evaluate the Choice Program, pursuant to KRS 278.255, prior to the end of the 2003-2004 heating season. Columbia was notified in a March 22, 2004 letter from the Commission's Executive Director of the Commission staff's plans to initiate the consultant selection process for that evaluation. Copies of the Executive Director's March 22, 2004 letter and Columbia's April 20, 2004


letter, which contains its request to postpone the evaluation of the Choice Program, are attached to this Order.

IT IS THEREFORE ORDERED that all parties shall file their responses to Columbia's April 20, 2004 request to postpone the evaluation of the Choice Program within seven days from the date of this Order.

Done at Frankfort, Kentucky, this 1st day of June, 2004.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above the title 'Executive Director'.

Executive Director



Ernie Fletcher
Governor

LaJuana S. Wilcher
Secretary

Commonwealth of Kentucky
Environmental and Public Protection Cabinet
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3480

March 22, 2004

Mr. Joe Kelly, President
Columbia Gas of Kentucky
2001 Mercer Road
Lexington, KY 40512-4241

Dear Mr. Kelly:

In its September 25, 2003 Order in Case No. 1999-00165, the Commission stated that prior to the end of the 2003-2004 heating season, the Commission would initiate the process to retain an external consultant to evaluate the Customer Choice pilot program pursuant to KRS 278.255. The purpose of this letter is to notify you that the Commission staff is initiating the consultant selection process.

To that end, the Commission staff would like to schedule a conference with you and other appropriate employees of Columbia Gas of Kentucky to discuss the tentative schedule and scope for the review as well as the audit process. This meeting should be held no later than April 15, 2004 so that the audit can be completed and considered by the Commission in a timely fashion.

Please contact Aaron Greenwell or Jeff Shaw of my staff at 502-564-3940 prior to the end of March 2004 to schedule this conference. As always, feel free to contact me with any questions or concerns.

Sincerely,

Thomas M. Dorman,
Executive Director

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APR 22 2004

April 20, 2004

Mr. Thomas M. Dorman
Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, Kentucky 40602

FINANCIAL ANALYSIS

RECEIVED

APR 20 2004

PUBLIC SERVICE
COMMISSION

Dear Mr. Dorman:

Columbia Gas of Kentucky, Inc., is in receipt of your March 22, 2004 letter regarding the process to retain a consultant to evaluate the Customer Choice program, pursuant to the Commission's Order in Case No. 1999-00165. The purpose of this letter is to request that the Commission postpone the audit process pending a decision by Columbia that would confirm discontinuance of the program or provide reasonable certainty that Columbia intends to file a revision to the pilot program.


The Customer Choice program was developed in collaboration with the Office of the Attorney General of the Commonwealth of Kentucky, the Lexington-Fayette Urban County Government and the Community Action Council for Fayette, Bourbon, Harrison and Nicholas Counties along with FSG Energy Services, a marketing subsidiary of Wisconsin Public Service Resources Corporation. In April 1999 Columbia filed its initial application seeking Commission approval of the pilot program. At that time, there was significant momentum in the energy industry and among some regulators for initiatives such as the pilot program, which provide customers with a choice of commodity suppliers.

The Commission did not approve Columbia's program as proposed, but offered a modified program if Columbia chose to accept it. Columbia voluntarily accepted the pilot program and those customers who chose to participate began purchasing natural gas from approved marketers in November 2000. In December 2000 and into 2001, natural gas prices spiked drastically. With the ensuing volatility of natural gas prices, the "Enron" fallout, the well-publicized problems with the Atlanta Gas Light program, and the troubling deregulation experiences in California, the zeal appears to have waned among some industry sectors and some regulators for this type of "deregulated" commodity option. While there are some success stories, the environment is much different today than it was five years ago when Columbia initially sought approval of its pilot program.

Columbia's Customer Choice program is the only program of its kind in Kentucky. It is scheduled to terminate on March 31, 2005, pursuant to Commission order. Columbia is planning to meet with interested parties prior to making a decision on whether the pilot program should be allowed to expire or whether to request that the program be continued, most likely with modifications. If Columbia decides to seek a continuation of the Choice program, it will need to notify the Commission in the Fall of this year and make the necessary filings. Because of the current uncertainty regarding the continuation of its Customer Choice program, Columbia requests that the Commission suspend its planned audit of the Choice Program, pending Columbia's decision its future.

Please do not hesitate to contact me if you have any questions.

Sincerely,


Joseph W. Kelly
President